

**CLARK COUNTY, WASHINGTON**  
**January 1, 1994 Through December 31, 1994**

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**Schedule Of Findings**

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1.     The County Should Improve Controls Over The Building And Planning Permit System

The county's Department of Community Development issues thousands of building, planning, and other permits each year in accordance with state and local laws. During each of the years 1993 and 1994, this department generated revenues in excess of \$8,000,000, making it the one of the largest cash receipting departments in the county. Our examination of the system for issuing, recording, and collecting these revenues revealed a number of weaknesses noted below:

a.     Segregation of Duties

Employees who accepted payments also initiated fire inspection permits. These cashiers can also adjust or void these transactions without approval.

b.     Permit Number Control

Overall sequential use of permit numbers was not monitored. During our testing, we discovered numerous missing permit numbers which were not adequately explained by county officials. As a result, we were unable to determine whether all the permits issued were accounted for properly.

c.     Composition of Deposits

The reconciliation process did not include verifying whether payments were made by cash or check. Many deposits we reviewed revealed the cash versus check composition did not match the cash register tape resulting in deposits that were not intact.

d.     System Access Controls

Passwords to the permit system are not monitored or changed regularly. We discovered one individual whose password had not been changed since 1976. In another case, an individual who no longer works for the department had access to the system. Four positions within the department, two of them cashiers, had unrestricted access that allowed them to add, change, or delete data in the system.

Because of the significant growth in the county during the past few years, management has focused their efforts on managing increases in building and planning permit activity, as well as other services. However, some of these same weaknesses were reported in our annual audit for the year 1991 (See Report No. 54533). Even though management has made improvements, some of these weaknesses remain unresolved.

The weaknesses cited above place the county at high risk that errors and irregularities could occur and not be detected in a timely manner. It further exposes the county to high risk of misuse, abuse, or loss of public funds.

We recommend the Department of Community Development develop procedures to correct internal control weaknesses within the cash receipting and permit system as follows:

- a. Segregate employee duties for all cash receipting and permit recording.
- b. Sequentially account for all permit numbers used.
- c. Ensure that all deposits are made intact.
- d. Routinely update passwords and ensure that all adjustments and voided transactions are approved by a supervisor.

2. Internal Controls Within The Clark County District Court Should Be Improved

The Clark County District Court receives payments over the counter and through the mail for a variety of legal violations. During each of the calendar years 1993 and 1994, the district court collected in excess of \$4,000,000, much of it in cash. Our examination of the process used to record, collect, and deposit these revenues revealed the following weaknesses.

a. Duties Not Properly Segregated

The same individual responsible for reconciling the daily receipts also has access to the cash, prepares the deposits, and is the custodian of the bank account. No one individual should have complete control over an entire transaction.

b. Bank Reconciliations Not Current

As of June 1995, we noted that bank account reconciliations had not been completed since January 1995 and bank account reconciliations from October 1994 through December 1994 were not available for audit as required. Because these reconciliations were not prepared, we could not readily determine whether bank balances were proper or accurate.

c. Daily Receipts Not Adequately Safeguarded

During our initial, unannounced cash count, we discovered that one of the two cashiers had inappropriately placed their daily receipts (\$13,280 in cash and \$1,864 in checks) in an unlocked desk drawer in the supervisor's office. The office also contains a safe, however, it was not kept locked during the day nor was the office secured.

d. Receipts Not Deposited Promptly

Upon examining the contents of the safe in the supervisor's office, we found two days of court payments received through the mail that were not recorded or processed by the department.

e. System Access Controls Weak

Our examination of access controls revealed all full time cashiers have a level of control which allows them to approve their own work or correct errors without the knowledge or approval of a supervisor.

Most of these weaknesses resulted from inadequate application of policies and procedures, as well as the lack of training. Most of these same weaknesses have been reported to management in previous audit reports by our office and the internal audit staff of Clark County. One of those prior reports (Report No. 53806), was a special report dealing with the theft of public funds in the district court.

These weaknesses place public funds at a significantly higher risk that errors and irregularities could occur and not be detected in a timely manner, and further increases the risk of loss, misuse or abuse. In addition, these weaknesses increase audit review time which, in turn, increases audit costs.

We recommend that the district court administrator:

- a. Reassign duties to separate receipting, recording, depositing, and bank reconciliation procedures.
- b. Retain documentation to provide an audit trail of transactions and proof of bank account reconciliations.
- c. Require cashiers to place deposits in a locked bank bag in a properly secured safe.
- d. Require daily deposit of proceeds.
- e. Limit system access controls for all noncash and error correction transactions to supervisory personnel only.

**CLARK COUNTY, WASHINGTON**  
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**Schedule Of Federal Findings**

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1. The Department Of Community Services Should Revise Their Indirect Cost Allocation System To Comply With Federal Requirements

Our review of the county's Department of Community Services (DCS) cost allocation system disclosed the following system weaknesses.

Allocation Bases Not Supported

Bases for determining cost allocation rates for the department's cost pools were not supported by the accounting records. According to the DCS Finance Manager, they were developed using employee job descriptions or previous supervisors' input. Employing this method, four employees were included in the "Direct Personnel" cost pool as program support persons for the weatherization programs, when in fact they had performed administrative duties only. In addition, three of the four individuals had not performed any duties that benefited the weatherization programs.

Office of Management and Budget's (OMB) Circular A-87, *Cost Principles for State and Local Governments*, Attachment A: Part J.1., states in part:

A plan for allocation of costs will be required to support the distribution of any joint costs related to the grant program. All costs included in the plan will be supported by formal accounting records which will substantiate the propriety of eventual charges. (Emphasis ours.)

Application of Cost Allocation Plans Not Consistent or Appropriate

- a. Indirect rates which had been developed to allocate payroll related charges were often not used. For each of the months we tested, totals calculated to be allocated had been adjusted for several grant programs. According to DCS personnel, the adjustments were made based on budgeted amounts available in specific programs, or in line items within programs.

OMB Circular A-87, *Cost Principles for State and Local Governments*, selected sections states in part:

Attachment A: Part C.2.a.

A cost is allocable to a particular cost objective to the extent of benefits received by such objective . . . .

Attachment A: Part C.2.b.

Any cost allocable to a particular grant or cost objective under the principles provided for in this Circular may not be shifted to other Federal grant programs to overcome fund deficiencies, avoid restrictions imposed by law or grant agreements, or for other reasons. (Emphasis ours.)

- b. Capital expenditures were charged into cost pools as supplies and allocated to grant programs as indirect costs. DCS personnel could not produce any written authorization for this treatment of capital expenditures from either of the federal grantors involved.

OMB Circular A-87, *Cost Principles for State and Local Governments*, Attachment B: Part B.3., states in part:

The cost of facilities, equipment, other capital assets, and repairs which materially increase the value or useful life of capital assets is allowable when such procurement is specifically approved by the Federal grantor agency . . . .

- c. A portion of certain employees' salaries and benefits were charged directly to the HOME program, with the remaining portion charged to the HOME program indirectly through the department's cost pool allocations. The salaries and benefits for these individuals did not appear to have been counted twice, but as a result of the dual treatment, the HOME program was charged an inappropriate amount of administrative salaries and benefits for the periods examined.

OMB Circular A-87, *Cost Principles for State and Local Governments*, selected sections states in part:

Attachment A: Part D.2.

A cost may be direct with respect to some specific service or function, but indirect with respect to the grant or other ultimate cost objective. It is essential, therefore, that each item of cost be treated consistently either as a direct or an indirect cost.

Attachment A: Part F.1.

Indirect cost pools should be distributed to benefiting cost objectives on bases which will produce an equitable result in consideration of relative benefits derived.

- d. The department had 56 employees on staff during the audit period. Of this total, only 12 were charged directly to programs using the county's payroll/labor distribution system. The remaining 44 individuals were charged indirectly through one of DCS's two personnel cost pools. We reviewed several time sheets for those individuals who charge their time directly through the county's payroll system. This review found the time sheets did not represent actual time and effort expended by the employees on specific programs, but were allocations to several programs based on an estimated percentage of time expected to be spent.

OMB Circular A-87, *Cost Principles for State and Local Governments*, Attachment A: Part E.2. states in part:

Typical direct costs chargeable to grant programs are:

- a. Compensation of employees for the time and effort devoted specifically to the execution of grant programs. (Emphasis ours.)

The DCS cost allocation plans affect four of the six major grant awards for Clark County and the majority of non-major grant awards. In addition, all four of the major awards affected by the allocations have limitations on the amount of administrative costs allowable. Using unsupported and inconsistent bases for these allocations results in unallowable costs being charged to federal grant programs.

According to DCS managers, they were under the impression their methods for determining and implementing indirect cost rates were acceptable to granting agency supervisory personnel. However, DCS was unable to provide any written evidence that the federal agencies had reviewed and approved their indirect cost rates.

We recommend the county ensures the Department of Community Services develops and implements a cost allocation plan in accordance with federal guidelines.

2. Child Support Enforcement Expenditure Reimbursement Reports Should Be Based On Actual Hours Worked

Our review of the Child Support Enforcement grant in the Clark County Clerk's Office disclosed that the county is claiming full-time salary reimbursement for employees not working full-time on the grant. The clerk's office is consistently claiming reimbursement for four and one-half full-time employees even though their actual time spent working on the grant is only equivalent to approximately two full-time employees. Support for claims consists of employee time logs which agree to the billings, but do not reflect actual time spent on the grant.

Office of Management and Budget (OMB) Circular A-87, *Cost Principles for State and Local Governments*, Attachment A, Basic Guidelines, C.2. Allocable Costs, states:

A cost is allocable to a particular cost objective to the extent of benefits received by such objective.

In addition, A-87, Attachment B, Standards For Selected Items of Costs, A.10.b., Compensation For Personal Services, states:

Amounts charged to grant programs for personal services, regardless of whether treated as direct or indirect costs, will be based on payrolls . . . Payrolls must be supported by time and attendance or equivalent records for individual employees.

Management states that while the individuals in question only work a portion of the time billed, other employees also work on the child support program for varying periods of time and do not bill any time to the program. Management also indicates that their method of billing has been acceptable to the Department of Social and Health Services (DSHS) supervisory personnel from the inception of the program. The county is unable, however, to furnish us with a copy of an agreement with DSHS wherein this arrangement is detailed. In addition, we are unable to confirm this arrangement through discussions with DSHS personnel.

Because the clerk's office does not require employees to record the actual time worked on Child Support Enforcement activities, we are unable to determine and the clerk's office is unable to support the actual hours spent on this program.

We recommend that management require employees of the clerk's office to prepare time sheets reflecting actual time worked on the Child Support Enforcement grant.

We also recommend that the county and DSHS enter into an agreement wherein the principles of A-87 are properly defined and prescribed.